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SUBJECT: TURKEY AND RUSSIA REACH COMPROMISE ON GAS

1. (U) GOT officials have confirmed that BOTAS has reached a compromise with Gazprom's sales company Gazexport, following 11 months of negotiations, but have not made any official announcements detailing the new price, except to state that it was a competitive price, similar to the one applied to other European countries. Press reports indicate that the Russians have agreed to give a single and more competitive price to Turkey for natural gas instead of the four different prices that Turkey was obligated to pay in the past. One of the provisions of the agreement permits Turkey to implement different pricing for different seasons, so that Ankara will pay less for gas during the summer than during the winter. To date, the GOT has

2. (U) Under the new deal, Turkey also has minimized its contact with Turusgaz, the intermediary company for Turkey's gas purchases from Russia through Bulgaria. The agreement allows Turkey to limit gas purchases to 500 million cubic meters of natural gas through Turusgaz and to buy the remaining 7.5 bcms directly from Gazprom. Turusgaz's involvement is to continue for about two more years to compensate for the costs of the investments made in Bulgaria to facilitate the transfer of gas from Russia to Turkey. The GOT also has lowered its take-or-pay obligations in its natural gas contracts with Gazprom, which the World Bank's estimates would have cost Turkey \$15 billion in the next 10 years.

3. (U) Energy Minister Guler did take some credit for the successful negotiations. He said that "we have now learned how to negotiate and improve our conditions in these agreements, which is a sign that mistakes made in the past can be corrected. We value our relations with our neighbors and are willing to improve these relations." He stated further Turkey is willing to pursue similar talks with Iran to lower prices to a reasonable level, and eventually be in a position to buy as much gas as Turkey needs. He stressed that lesser reliance on gas will enable Turkey to utilize idle resources, such as hydroelectric or thermal energy power plants, which would contribute to lower electricity prices. Guler noted that Russian and Iranian companies were welcome to bid for the distribution networks in Turkey.

EDELMAN